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## Colombia

### Coffee Semi-annual

## Production Rebound Holds, but Low Prices Continue to Burden Growers

**Approved By:**

Joseph Lopez, Agricultural Counselor

**Prepared By:**

Anthony Gilbert, Agricultural Attaché

Leonardo Pinzon, Agricultural Specialist

**Report Highlights:**

Colombian coffee production in marketing year (MY) 2013/14 is expected to increase to 10.9 million bags (1 bag = 60 kilograms – unless otherwise noted), green bean equivalent. Exports are forecast to increase to 10.8 million bags in MY2013/14. The direct payment subsidies provided in 2013 by the Government of Colombia (GOC) and the National Federation of Colombian Coffee Growers (FEDECAFE) will continue through 2014, maintaining a much needed income safety net to buffer against low coffee prices.

**Executive Summary:**

Colombian coffee production will increase to 10.9 million bags in MY2013/14. Since 2010, Colombian coffee growers have replanted 373 thousand hectares with rust resistant varieties, just over 50 percent of total coffee area in production. The first harvests of replanted hectares and good weather are primarily responsible for the current trajectory of a production recovery.

Colombian coffee exports are expected to increase to 10.8 million bags in MY 2013/14. Given the production recovery, Colombian coffee imports in MY2013/14, originating primarily Ecuador, Peru and Vietnam, will decline marginally from 960 to 800 thousand bags.

Internal prices paid to growers have declined for the second consecutive year, down 30 percent over the last 12 months. The average price in October 2013 was US\$214 per 125 kilogram bag (domestic unit of sale for coffee) with production costs estimated to be from US\$350 to US\$425 per 125 kilogram bag. The GOC has pledged to maintain the income safety net through 2014 for coffee farmers due to low prices, which continue to be exacerbated by a strong Colombian peso.

**Commodities:**

Coffee, Green

**Production:**

Colombian coffee production was up 30 percent to 9.95 million bags in MY2012/13. The upward trend will remain steady for MY2013/14, reaching 10.9 million bags. There are three factors that can explain the production recovery. First, the rust resistant, *Castillo* coffee varieties replanted in 2010 have become economically viable with over 90 percent of the replanted trees reaching the more productive stage of their economic life cycle. Since 2008, 500 thousand hectares have been replanted, removing many of the rust affected trees. Approximately 373 thousand hectares were replanted with rust resistant varieties. Rust resistant coffee now represents 55 percent of the total tree population. Second, the replanting efforts were able to increase tree density from 5 to 5.7 thousand trees per hectare, boosting productivity. Third, the *la Niña* phenomenon that caused excessive precipitation has passed and weather conditions have returned to normal.

Not all replanting in recent years was with rust resistant varieties and farmers have expressed concerns with the *Castillo*'s productive efficiency and cupping quality. Many farmers, as a result, continue to plant traditional varieties while applying other methods of disease control, such as the application of fungicides. As well, defensive replanting, such as creating an outer buffer of disease resistant varieties, with more traditional varieties within that buffer, is another method that has minimized the impacts from rust.

Production will continue to expand in southern Colombia, primarily in the departments of Huila, Cauca and Nariño. The share of production in the south has increased from 19 to 27 percent over the last decade. Southern Colombia is now recognized for producing some of the best quality coffees, with grower lots regularly cupping above 90, often winning domestic competitions and the attention of international coffee buyers. In the south, typical coffee farms are small-scale and managed by families, so the premiums from producing high quality coffee are critical to their economic well-being.

In spite of the marketing success of high quality coffees in southern Colombia, low prices in general have led to income instability for all growers. Matters are made worse given the strong Colombian peso. These two factors squeeze grower margins and create disincentives to invest in inputs that directly impact product quality, including fertilizers and chemical pest and disease controls. In addition, tight finances compel growers to consider delaying replanting schedules, keeping older, marginally less productive trees in the field. Other production inefficiencies were highlighted in a recent GOC sponsored review of the coffee sector in Colombia. The review assessed that coffee productivity per hectare remains well below neighboring countries. For example, Colombia produces on average 10 bags per hectare while Brazil produces 24. The full report on the coffee sector and policy recommendations is expected in early 2014.

### **Consumption:**

Post estimates coffee consumption at 1.3 million bags for MY2013/14. Local coffee consumption is driven by an increasing number of chain coffee shops. Juan Valdez cafes, owned by a consortium that includes FEDECAFE, offer a variety of coffee and espresso drinks. Other companies with a presence in this market include Illy and OMA. In August 2013, Starbucks announced plans to open six stores in 2014 and 50 by 2019. Although processed and consumer oriented high quality coffee sales have increased in recent years, the Colombian consumption of green coffee remains trivial.

### **Trade:**

In MY 2013/14 Colombian coffee exports will increase to 10.8 million bags. Colombia continues to promote product differentiation, either through denomination of origin geographical branding and/or through a variety of environmental/social certifications that support more value added. Value added coffee products, and in particular specialty coffees, are 50 percent of Colombia's total exports. Colombian specialty coffee is booming with geographical branding and certified organic coffees receiving significant price premiums. At the 2013 Colombia Cup of Excellence, 16 small-scale farmers from the southern department of Huila received significant premiums for their high quality coffee that paid approximately US\$264 thousand for their entire lots.

Colombian coffee growers produce coffee under numerous international programs that provide fair trade and organic certifications such as USDA Organic, UTZ Certified, 4C, and Rainforest Alliance. Protocols vary between growers to maintain the levels of quality that will meet certification standards and continue to be recognized by international buyers. Colombian coffee growers understand value added and quickly incorporate new best practices in production and intermediate processing that will insure high cupping scores and secure premium prices in international markets. FEDECAFE estimates that the number of coffee growers harvesting under different certification standards has increased from 68 thousand in 2008 to 163 thousand in 2013.

The United States is the major single destination for Colombian coffee, importing 42 percent of all Colombian coffee exports, with the EU and Japan importing 30 and 11 percent respectively. Colombia continues to expand trade to new consumer markets, such as Saudi Arab, Ukraine, and Thailand. As well, Colombia is now exporting to major coffee producing countries, such as Brazil and Indonesia.

Prices for Colombian coffee in international markets fell 23 percent per pound in MY2012/13. Coupled with a strong Colombian peso, the average price received by growers has fallen 30 percent per 125 kilogram bag. In fact, current prices are comparable to those paid to growers six years ago.

**Stocks:**

The calculated inventory of coffee at the end of MY2012/13 totaled 855 thousand bags, or about 8 percent of the total harvest. The increase in stocks was a result of trucking industry protests that froze deliveries in August 2013. After the protests ended, delayed deliveries created logistical difficulties moving coffee to export markets with port warehouses becoming filled to capacity. In MY2013/14 stocks will reduce to 450 thousand bags

**Policy:**

Ninety five percent of coffee farms produce on 5 or less hectares of land, which supports about 69 percent of total production. This characteristic makes the coffee commodity critically important for the GOC in terms of rural employment and maintaining the economic well-being of rural families.

FEDECAFE funds programs to support coffee growers through a check-off program that allocates US\$0.06 cents per pound of exported coffee. The fall in production and exports in recent years significantly reduced FEDECAFE's program resources. In August 2012, attempts by FEDECAFE to increase the per bag check-off resulted in grower led riots in the city of Manizales, the heart of the coffee growing region. This display of discontent foreshadowed future protests by the growers.

Colombian coffee growers, facing considerable financial difficulties with slim to negative margins, initiated nation-wide protests in February 2013 to demand that the GOC recognize the sector's hardships and provide financial assistance. Approximately 80 thousand growers protested for 12 days, blocking roads and causing a national media sensation. Roadblocks created gasoline shortages in some towns and caused at least two deaths as ambulances were not allowed to pass through protestors. The leaders of FEDECAFE publicly distanced the organization from the protestors and their methods. The GOC began negotiating directly with the protestors while FEDECAFE remained largely on the sidelines. The negotiations resulted in an agreement by the GOC to provide a subsidy in the form of a direct payment that could be adjusted should prices continue to fall. The protests ended on March 8, 2013.

The subsidy agreement, entitled Protection for the Income of Farmers (PIC), took effect on March 18, providing Colombian pesos (CP)\$145,000 (US\$80) per bag in the form of a direct payment. If the international coffee price falls below CP\$480,000 the total amount of GOC financial assistance will increase through 2013. Conversely, the GOC will reduce the amount of subsidies if the price rises above CP\$700,000 (US\$395). With total financial support of CP\$625,000 (US\$353), the subsidy falls short of ensuring that growers will earn a profit or even break even, given many producers claim production costs upwards of CP\$750,000 (US\$425) per bag.

The GOC provides the PIC funds to FEDECAFE, which are then distributed directly to the farmers who provide a bill of sale to justify the amount of subsidy given. The GOC has pledged to continue the subsidy into 2014; however, there have been allegations of fraud in the distribution of the subsidy with farmers providing fabricated bills of sale or delivering contraband coffee from Ecuador and Peru as if it was harvested in Colombia. The first Colombian coffee harvests from January to June occur in the southern regional departments of Huila, Cauca and Nariño. The alleged fraud during the earlier harvests may have exhausted most of the entire subsidy promised by the GOC for 2013. In an attempt to address fraud and provide some clarification on beneficiaries of the PIC, the GOC published a decree with

eligibility criteria, requiring certain forms that include tax identification numbers and documentation that demonstrates that the beneficiary is a coffee grower and/or trader.

In addition, FEDECAFE maintains a program to hedge grower losses from exchange rate appreciation.

Under certain pricing conditions, a grower can provide an estimated sales price in Colombian pesos to FEDECAFE and at the eventual point of sale, should that price be impacted by adjustments in the exchange rate, FEDECAFE will cover the difference.

The Minister of Agriculture also announced that the GOC will cover all the fees for crop insurance to cover -weather-risk from climate change for small coffee farmers. The Ministry of Agriculture will allocate the resources up to US\$4,400 per hectare affected. This insurance will cover damages caused by hailstorms, avalanches, landslides and Volcano eruptions. This is a modification of a program of crop insurance that has been in place since 1993, but funded solely by FEDECAFE through check-off programs.

#### **Production, Supply and Demand Data Statistics:**

<b>Coffee, Green Colombia</b>	<b>2011/2012</b>		<b>2012/2013</b>		<b>2013/2014</b>	
	<b>Market Year Begin: Oct 2011</b>		<b>Market Year Begin: Oct 2012</b>		<b>Market Year Begin: Oct 2013</b>	
	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>
Area Planted	780	780	780	780		780
Area Harvested	640	640	640	640		640
Bearing Trees	2,900	2,900	2,900	2,900		2,900
Non-Bearing Trees	1,070	1,070	1,070	1,070		1,070
Total Tree Population	3,970	3,970	3,970	3,970		3,970
Beginning Stocks	99	99	249	249		855
Arabica Production	7,655	7,655	7,500	9,953		10,900
Robusta Production	0	0	0	0		0
Other Production	0	0	0	0		0
Total Production	7,655	7,655	7,500	9,953		10,900
Bean Imports	1,050	1,050	900	700		700
Roast & Ground Imports	0	0	0	40		40
Soluble Imports	55	55	60	60		60
Total Imports	1,105	1,105	960	800		800
Total Supply	8,859	8,859	8,709	11,002		12,555
Bean Exports	6,675	6,675	6,500	8,047		10,000
Rst-Grnd Exp.	25	25	25	25		25
Soluble Exports	610	610	600	775		780
Total Exports	7,310	7,310	7,125	8,847		10,805
Rst,Ground Dom. Consum	1,000	1,000	1,000	1,000		1,000
Soluble Dom. Cons.	300	300	300	300		300
Domestic Use	1,300	1,300	1,300	1,300		1,300
Ending Stocks	249	249	284	855		450

Total Distribution	8,859	8,859	8,709	11,002		12,555
Exportable Production	6,355	6,355	6,200	8,653		9,600